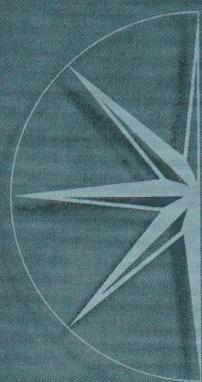


Winspear Business Reference Room
University of Alberta
138 Business Building
Edmonton, Alberta T6G 2R6



Indo Pacific RESOURCES LTD.



1997 ANNUAL REPORT





INDO PACIFIC RESOURCES LTD. IS A MINING, EXPLORATION AND DEVELOPMENT COMPANY WITH OPERATIONS LOCATED IN PAPUA NEW GUINEA, AN ISLAND NATION KNOWN FOR ITS WORLD-CLASS GOLD AND COPPER DEPOSITS. THE COMPANY, ALONG WITH ITS WHOLLY OWNED SUBSIDIARY INDO PACIFIC MINING (PNG) PTY LTD., IS THE LEADING JUNIOR GOLD AND COPPER EXPLORER IN THE COUNTRY. INDO PACIFIC CURRENTLY HOLDS INTERESTS IN ALMOST 6,000 SQUARE KILOMETRES UNDER 13 GOLD AND COPPER EXPLORATION LICENSES.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders was held

Tuesday, May 5, 1998 at 3:00 p.m.

at the offices of Burnet, Duckworth & Palmer,

Suite 1400, 350 - 7th Avenue S.W.,

Calgary, Alberta, Canada.

THE COMPANY'S FUTURE WILL DEPEND LARGELY ON THE EXTENSIVE KNOWLEDGE AND EXPERIENCE OF THE GEOLOGISTS AND MANAGEMENT TEAM IN PAPUA NEW GUINEA. MANAGEMENT'S PHILOSOPHY OF COMBINING LOWER-COST, EASILY ACCESSIBLE AREAS WITH HIGHER-VALUE, LONGER-TERM EXPLORATION AREAS WAS PUT INTO PRACTICE IN 1996 RESULTING IN A HIGH LEVEL OF EXPLORATION ACTIVITY IN MANY OF THE COMPANY'S LICENSES.

INDO PACIFIC'S SHARES ARE LISTED ON THE ALBERTA STOCK EXCHANGE, TRADING UNDER THE SYMBOL "IPF".



PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

The board of directors of Indo Pacific Resources Ltd. is pleased to report that despite the recent deterioration in market support for the mineral exploration industry generally, and junior explorers in particular, the company continued exploration on a number of its key licenses. To achieve this with a much lower than expected budget, and a hampered ability to raise exploration capital, the company was forced to re-think its short and medium-term strategies and revise its objectives to maximize its budget and land assets. Steps were also taken to reduce operating costs to the absolute minimum. In summary, although our inability to raise significant exploration capital posed a number of challenges, Indo Pacific finished 1997 intact as an active explorer with a number of encouraging field programs either on-going or scheduled to commence in early 1998.

Indo Pacific entered 1997 planning to commence active exploration programs on all of its licenses through its wholly owned operating subsidiary, Indo Pacific Mining (PNG) Pty Ltd, as well as to increase its land position in the latter part of the year. Recommendations by independent consultants, Watts, Griffis and McOuat of Toronto arising from site visits in 1996, along with detailed examinations of historic reports of the license areas, suggested a budget of approximately US \$10 million over a 12 month period to conduct full-scale exploration on all prospects. As mentioned, the company revised its objectives to reflect market realities and was successful in June, 1997 in raising Cdn \$750,000 in Papua New Guinea by way of private placement and then a further Cdn \$200,000 with a pledge of Cdn \$200,000 over the first three months of 1998, which fund raising has allowed full scale operations to continue on several selected licenses.

During 1997, exploration was concentrated on four licenses, Bowutu Mountains, Dawa Dawa, Ambunti and Sumwari, with bull-



Indo Pacific finished 1997 intact as an active explorer with a number of encouraging field programs

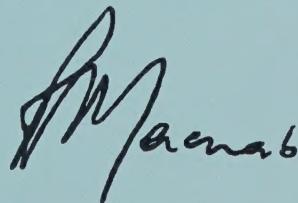
dozing being undertaken in the Bowutu Mountains and Dawa Dawa licenses, and diamond drilling in the Dawa Dawa license.

As part of its revised strategy, the company reduced its number of national geologists to a nucleus of five, along with one national geophysicist/computer draftsman. Mr. Karl Jensen assumed the role of Chief Geologist on a part-time contracting basis and Peter Macnab, while remaining President and a director of Indo Pacific, relinquished his role as Chief Executive Officer and became a technical advisor to the company on a consultancy basis. Mr. Peter Slaughter, who joined the board as Chairman and a director at the end of March, resigned from both positions later in the year. Mr. Wayne Golding, already a director of the company's PNG subsidiary, became a director and Chief Executive Officer and Mr. Hii Yii Ann became a director of the subsidiary.

While continuing to actively seek joint venture partners for all licenses, the company's major exploration efforts in 1998 will be concentrated on three license areas: Sumwari, Star Mountains and New Hanover which licenses demonstrate potential for world-class gold or copper-gold deposits. The company will continue limited,

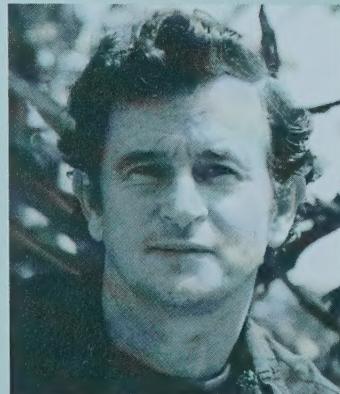
but focused, exploration on its other licenses and will take the opportunity to further decrease operating expenses by reducing these licenses to minimum sizes, surrounding the best of the known prospects.

On behalf of the Board of Directors,



R. Peter Macnab

R. Peter Macnab
President





MANAGEMENT PROFILES

WAYNE K. GOLING O.B.E., CHIEF EXECUTIVE OFFICER AND DIRECTOR

Wayne is Chairman and Chief Executive Officer of Tanubada Dairy Products Pty Ltd, Hohola Soft Drinks Pty Ltd, Pacific Products Pty Ltd, and Kina Securities Group of Companies. These various companies are involved in agriculture, food processing, banking, stock brokerage and mining. He is also the founding and current Chairman of the Manufacturers Council of Papua New Guinea. Mr. Golding holds various public offices and is a committee member of the World Trade Organization, National Economic Development Forum, Chairman of the Food and Vegetable Advisory Board and Commissioner of the National Capital District Provincial Government. He represents Papua New Guinea on the Asia Pacific Economic Co-operation (APEC) Business Advisory Council which reports to the APEC leaders annually.

KARL JENSEN, CHIEF GEOLOGIST

Karl has 20 years active experience in gold exploration throughout the southwest pacific, Australia and southeast Asia. He has worked as a geologist with Peter Macnab over much of the past 10 years, including the past five years in Papua New Guinea. His strengths include his ability to communicate and relate well with his staff in planning and overseeing projects. The company's national senior geologists, whom Karl oversees, have exploration experience spanning all aspects of Papua New Guinea's active exploration and mining industry, gained over a number of years working with the country's major operators.

PETER MACNAB, PRESIDENT AND DIRECTOR

Peter is a highly regarded explorationist with over 30 years experience as a geologist in Papua New Guinea. He found the significant Misima gold deposit, which he sold to Placer Dome and which is now a major producing mine. Peter also discovered the massive Lihir gold deposit, which is scheduled to begin production in mid-1997. Peter's experience and expertise includes regional geological mapping with the Papua New Guinea geological survey, alluvial gold prospecting and mining, as well as gold and copper exploration for various companies as a contractor and consultant. In the late 1980s, he was involved with exploration throughout Southeast Asia, the Southwest Pacific, and Central and South America, before returning to Papua New Guinea in the early 1990s.

NEIL DAKIN, DIRECTOR

Neil is a solicitor based in Sydney, Australia and was founding chairman of Indo Pacific in September 1995. For more than his 30 years in legal practice, Neil has been involved with corporate negotiations and financing of petroleum and mining companies. He has been a partner and senior partner in law firms in Australia and Papua New Guinea, and general counsel for the Esso Group in Australia. Over the past 10 years, he has participated in structuring a number of public offerings, including Placer Pacific Limited and Highlands Gold Limited. Neil was also a founding director of Highlands Gold.

BRUCE MACDONALD, DIRECTOR

Bruce has been a director of Indo Pacific since June 1995. He has over 40 years experience in the Canadian and international oil and mineral resource industries. Bruce was Chairman of the Board of Ranchmen's Resources Ltd. and president and director of Trans-Canada Resources Inc. He is currently an active director of a number of public and private companies in the oil and gas and mining sectors.

BRUCE ALLFORD, DIRECTOR

Bruce is a partner with the law firm Burnet, Duckworth & Palmer of Calgary, Alberta, Canada. He has been a director of Indo Pacific since July 1996 and prior thereto was the company's Corporate Secretary.

EXPLORATION COMPLETED IN 1997

During 1997, exploration was concentrated in four licenses, Bowutu Mountains, Dawa Dawa, Ambunti and Sumwari.

Bowutu Mountains

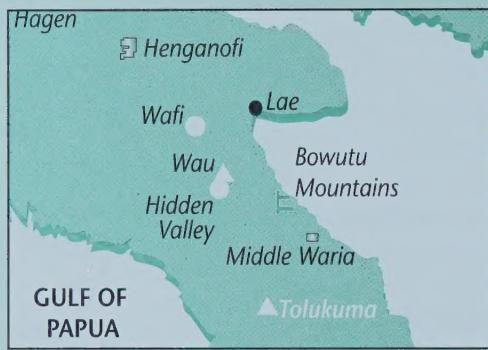
In the Bowutu Mountains license, which is subject to a joint venture with ASE listed Aurient Resources Ltd., the company conducted detailed geological mapping and soil sampling and several months of bulldozer trenching on the Du River Prospect early in the year, but terminated the bulldozer contract early with its planned program still incomplete because of continuous delays brought about by break-downs and compounded by wet weather. Assay results were assessed along with the

geology to plan geophysical surveys, such surveys being made necessary by the complexity of the mineralization being revealed by the detailed geological mapping and bulldozing.

In the main mineralized area, soil results indicate two areas of anomalous gold, the first an irregular area 80 to 100 metres across near the main occurrence of high grade sub-outcrop boulders in the Du River headwaters, and the second a linear, northeast-trending zone more than 200 metres long with two distinct centers of higher values.

Bulldozer trenching completed in the eastern part of the first soil anomaly, exposed shallow-dipping vein quartz with some sulphides, which pinches and swells from less than 20 centimetres up to 3 metres in thickness and is strongly disrupted by fracturing. Gold in channel samples in and adjacent to the vein ranges from 0.5 grams per tonne to a best value of 27.7 grams per tonne, with the best value representing 1.8 metres true width of vein. At the time that bulldozing was suspended, trenching had not uncovered bedrock in the western part of the first soil anomaly, where large sub-outcrop quartz-sulphide boulders are interpreted as being derived from a feeder to the vein. The two soil anomalies in the second gold zone were not trenched.

Although the fieldwork conducted to date in the Bowutu license has not indicated drill targets, the work is incomplete and geophysics in particular are required. The Company believes that the Du River Prospect remains attractive in spite of the probable small size of targets because of the bonanza gold grades and easy access.



Dawa Dawa

In the Dawa Dawa license, after re-opening, re-sampling and geologically mapping Highlands Gold's trenches on the Mt. Haluba Prospect, and mapping and sampling underground at the old Ulo Ulo mine site, Indo Pacific conducted a bulldozer trenching program which commenced in mid-July. Contour benching, geological mapping and channel sampling were

completed at Mt. Haluba in early August, and at Ulo Ulo in late September. Diamond drilling using an RB40 man-portable drill rig was conducted in the period August 22 to October 13, with four holes drilled at Mt. Haluba totalling 317.6 metres, and eight holes drilled at Ulo Ulo totalling 303.3 metres.

Mineralization at both prospects is related to: i) strong fracturing of a biotite gabbro host in major northeast-trending linear structures, being 60 metres wide at Mt. Haluba and 200 metres wide at Ulo Ulo; ii) accompanying injection of granodiorite; iii) subsequent further fracturing and alteration; and iv) associated quartz-base metal sulphide-gold veining.

Bulldozer bench assay results from the Mt. Haluba Prospect confirmed strongly anomalous gold values in weathered bedrock over a true width of 60 metres in a major northeasterly-trending structure, with a best result of 1.7 g/t gold over the entire 80 metres length of one bench oblique to strike, including 26 metres averaging 3.7 g/t gold. Assay results from the four drill holes at Mt. Haluba demonstrate in a very positive way that dispersion and residual enrichment of gold have taken place in the weathering zone, forming a blanket over the ridge-top and spur. Best intersections within the weathering zone in each of the four holes were 20 metres at 2.2 g/t gold, 5 metres at 2.2 g/t gold, 5.9 metres at 3.5 g/t gold and 13 metres at 1 g/t gold including 1 metre at 3.7 g/t gold and 3 metres at 2.0 g/t gold; only very low primary gold grades were encountered below the base of the weathering zone. The area tested is approximately 100 metres by 60 metres in extent, with a secondary enrichment depth varying from about 15 metres to a maximum of about 25 metres. The mineralization may extend for a further 100 metres along strike to the southwest, thinning down towards the creek. The probable average gold grade of the blanket of about 2 g/t, however because of the relatively shallow depth of weathering the total amount of gold present in the tested area and possible extensions is unlikely to exceed 20,000 ounces.



At Ulo Ulo the bulldozing showed that gold mineralization occurs as sub-zones up to 20 metres wide of sub-parallel, quartz sulphide veins and breccias, each from several centimetres to several metres and rarely to 8 metres wide, within a zone at least 200 metres wide cutting obliquely across the southeastern corner of a saddle in the main ridge system and exposed for a distance of 800 metres along a northeasterly trend. Historically, oxidized vein material was mined underground to 20 metres below the surface, along short cross-cuts and drives from the steep southern slope, averaging 15 g/t gold recovered. Drill holes targeting a secondary gold blanket under the relatively flat, swampy ground of the saddle encountered little gold except for minor enrichment in the uppermost several metres, and a small number of widely-spaced, semi-oxidized individual veins up to 0.5 metres wide intersected below the shallow water-table to depths of 40 metres, which returned assays up to 11.6 g/t gold. A single hole targeting primary mineralization was drilled within the zone 250 metres to the south and down the steep slope below the saddle, and this intersected 5 metres of strongly pyritic altered granodiorite averaging 4.3 g/t gold including 60 centimetres at 13.7 g/t gold.

Sumwari

At Sumwari, Indo Pacific conducted continuous exploration in the Kru River alluvial gold area from May to October, 1997. Detailed geological mapping was accompanied by stream sediment sampling and dish prospecting, followed by base-of-slope and ridge-and-spur soil sampling and hand-dug trenching. More than two thousand samples in total were collected and assayed. The baseline and cross-lines for a ground magnetometer survey have been commenced, and this survey will be carried out in early 1998.

Within the Sumwari license, low-grade schists and related metasediments are intruded by dykes and stocks of variegated

dioritic composition. Mineralization is related to quartz sulphide veining in altered dioritic intrusives and to a lesser extent hornfelsed metasediment country-rock. The structure of the area is dominated by the Leonard Schultz Fault Zone, of which two major sub-parallel splays two kilometres apart and a number of minor components were mapped in the Kru River area,

trending east-west and dipping moderately to the south. In the northwestern part of the area many of the porphyries are fault bounded and quartz-pyrite-chalcopyrite veins up to 1.5 metres wide are injected into faults. The area is geologically similar to the copper-gold mineralized Frieda River area, which lies in a similar geological environment 60 kilometres to the west along the Leonard Schultz Fault Zone.

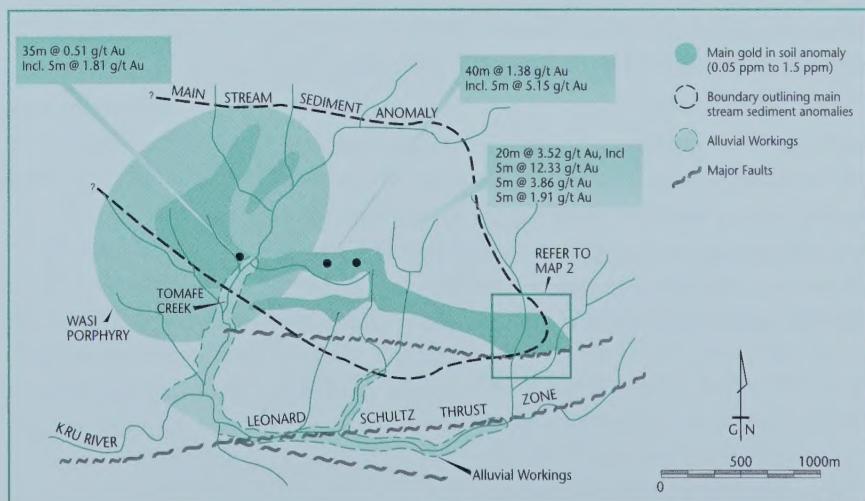
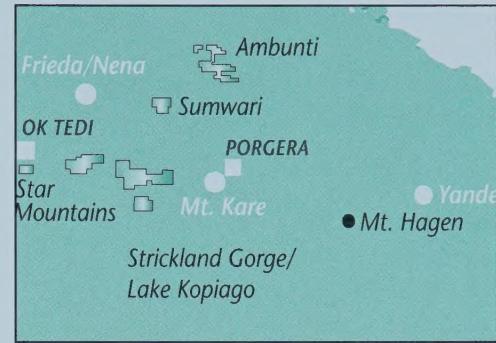
Initial stream sediment sampling targeting the source area of the alluvial gold being worked along the Kru River and its tributaries, established an area of gold mineralization approximately 2 kilometres wide and 3.5 kilometres long in an east-west direction, lying along the northern side of the splay fault north of the Kru River, and named the Kru River Prospect.

Regional base-of-slope and ridge-and-spur soil sampling was conducted throughout the area of the Kru River Prospect, with results confirming widespread significant gold mineralization and highlighting a

major linear anomalous zone 2,500 metres long and 125 to 250 metres wide, opening out to the northwest into the Wasi porphyry copper-gold area. The anomaly is defined by gold-in-soil values above

0.05 ppm, enclosing coherent patches of higher values mostly in the range of 0.2 ppm to 1.5 ppm gold, including a major area along the southern margin at the eastern end 80 to 120 metres wide and 700 metres long.

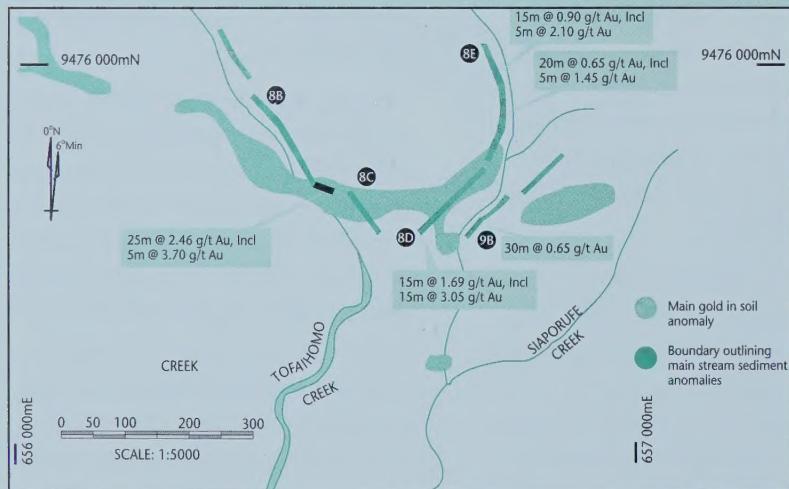
Hand-dug trenching was commenced in August and continued into October, at a rate of 200 to 300 metres per week, concentrating at the eastern and western ends of the soil anomaly; the topography being more subdued in the centre of the anomaly and the depth to bedrock too great for hand trenching. The trenches have been mapped geologically and mineralized bedrock channel sampled in 5 metre intervals. Trenches largely exposed intrusives, with a variable density of fracturing and narrow quartz veining with individual veins up to 20 centimetres



wide; where fresh rock is encountered, variable amounts of pyrite and minor chalcopyrite occur in the veins.

Near the eastern end of the main gold-in-soil anomaly, continuous channel sampling of secondary mineralization with some relict sulphides in creek exposures and trenches have indicated an area 400 metres by 200 metres along the southern edge of the anomaly, within which most gold values range from 0.2 to 0.8 g/t, with significant higher grade sections including 15 metres at 3.7 g/t gold. Close examination of the exposures reveals that most of the mineralization is secondary, supporting the company's original concept of secondary gold targets. Gold-in-soil results suggest that the mineralization extends to the west of the trenched area for a further 300 metres, into an area of deep soils and no exposure. One Kilometre to the west, a trench result of 5 metres at 12.3 g/t gold represents the highest trench value to date.

The Kru River Prospect exhibits major potential for both significant secondary gold caps shedding into the alluvials, and primary gold mineralization, and the company expects to conduct initial drilling by



mid-1998. Elsewhere in the Sumwari license, a number of other identified prospects await systematic detailed exploration, including the copper mineralization associated with the Wasi Porphyry which was drilled by U.S. Steel in the early 1970's and other gold prospects identified by Highlands Gold located eastwards along the Leonard Schultz Fault Zone.

In late July, 1997 an application for a new exploration license (EL 1233) was made over 745 sub-blocks (2,530 square kilometres) extending east and west from the company's Sumwari exploration license and adjoining two of Highlands Pacific's existing licenses. This application was made to cover extensions of the mineralization model now established as the main source of alluvial gold in the

Sumwari license and contains areas of known mineralization.

Ambunti

In the Ambunti license fieldwork was conducted on both the Banang and Waskuk Prospects. On the Banang Prospect, channel sampling was conducted in several short hand-dug trenches positioned to locate the edge of the mineralization immediately east of Banang Creek, where gold values cut out between two closely-spaced adjacent trenches. Horizontal channel samples up to 5 metres long taken low down on the walls of the new trenches returned

values of 1.4, 1.6, 3.7, 5.5, 5.6, 15.2, 15.3 and 34.5 g/t gold, whilst vertical channels immediately above these samples contained little gold, with values mostly less than 0.1 g/t. A ground magnetometer survey was conducted over the soil grid which did not detect shallow intrusives in the metamorphics, however a computer analysis of results is required to interpret structures and possible lithological variations. Drilling of this prospect is planned in mid-1998 in association with the drilling proposed on the nearby Sumwari license.

Mapping of hand-dug trenches on the Waskuk Prospect outlined two adjacent areas of mineralization comprising shallow to moderately-dipping sheets of largely intrusive breccia, representing the contact zone between a wide microdiorite body and hornfelsed metasediment. The contact zone is altered over a width of 4 to 5 metres, including a strongly silica-injected 1-metre interval with abundant arsenopyrite. It is disrupted by faulting and appears to dip northwest over a strike distance of 150 metres. Assay values were quite low, and this occurrence has contributed little to the widespread high stream sediment and float values in the area.



PROPOSED EXPLORATION IN 1998

Indo Pacific's exploration strategy has been revised in the light of the company's need to attract joint venture partners in order to access additional funds and the company's ongoing exploration programs reflect this revised strategy. The company's major exploration efforts will be concentrated in areas with demonstrated potential for world-class gold or copper-gold deposits and will focus on conducting programs which will clearly define that potential and indicate drill targets. The company believes that the Sumwari, Star Mountains and New Hanover licenses hold such potential and the most effort will be directed towards these licenses. Additionally a scout drilling program will be undertaking on the Banang Prospect in the Ambunti license. At the same time, limited but sharply focused exploration will be conducted in the company's other exploration licenses, many of which are due for reduction in size and extension of license term in mid-1998.

By following the above strategy, the company believes that it can operate effectively in 1998 on a total exploration budget of Cdn \$1 million. Planned 1998 exploration programs are as follows:

Sumwari License (EL 1052)

In 1998, the company plans to conduct a ground magnetometer survey over the Kru River Prospect, complete in-fill geological mapping and rock sampling for petrographic and other studies, in-fill soil sampling including several lines to close off the gold-in-soil anomalies, some additional trenching and channel sampling and

pitting to bedrock in areas of deep soil. This program, which started in mid-February, 1998, will identify initial drill targets and 1,000 metres of diamond drilling is planned from May to July using an up-graded version of the light-weight drill rig used in 1997 by the company at Dawa Dawa. Reconnaissance mapping and sampling will be conducted elsewhere within the Sumwari license on the Wasi porphyry copper mineralization including, particularly, the early 1970's copper drill sites of U.S. Steel and in the other Highlands Gold indicated anomalous gold areas.

When granted, geological mapping and sampling will be conducted in EL1233, which license contains extensions of the mineral provinces identified in the Sumwari license, particularly on the Nuwe and Weisas River copper-gold occurrences first located in the 1970's.

New Hanover License (EL 1086)

In 1998, the company plans to conduct further detailed geological mapping and sampling of the extensions of the Kuliuta Prospect and a detailed reconnaissance of other selected prospects including BLEG stream sediment sampling and soil sampling and ground magnetometer surveys.

Ambunti License (EL 1008)

In 1998, the company plans to conduct 300 metres of scout diamond drilling on the Banang Prospect, in conjunction with either the mobilizing or demobilizing of the drill rig to Sumwari and to conduct geological reconnaissance in several areas within the license strongly believed to contain gold.

Star Mountains License (EL 1018)

In the Tabubil Block conduct detailed geological mapping and a ground magnetometer survey are planned over the area of anomalous copper-in-soil along ridges and gold and copper mineralized float and argillic alteration along creeks, to establish the presence of shallow intrusives inferred under a thin sedimentary cap. In the Bolovip Block the company plans to relocate and reopen the earlier generation of prospecting trenches recording interesting gold in weathered bedrock and conduct detailed reconnaissance over the large Bolovip composite stock.

Bowutu Mountains License (EL 1008)

In the Bowutu Mountains license field-work will be undertaken when funded by joint venture partner Aurient Resources. The mineralized areas indicated in the Du River Prospect will be tested by ground geophysics and possibly IP for drill targets.

Dawa Dawa License (EL 958)

In the Dawa Dawa license a detailed reconnaissance will be conducted over the prospects within the license area, applying the experience gained at Mt. Haluba and Ulo Ulo and targeting particularly Mt. Haluba type secondary gold blankets.

CURRENT LICENCES

West New Britain License (EL 1088)

The West New Britain License will be reduced to include only the Kavola Prospect and Mt. Penck mineralization. Limited fieldwork will be carried out to plan ground geophysical surveys and locate further drill sites on the Kavola East target. Further samples will be collected for petrographic study.

Strickland Gorge/Lake Kopiago License (EL 1084)

The license will be reduced in size to include only the Lake Kopiago, Bulago, Tabe and Ku intrusives. Limited fieldwork is planned, to be integrated with work in the nearby Bolovip section of the Star Mountains license, during which the Ku and Tabe intrusive stocks will be prospected, as well as the lower Bulago River, for a possible second source of the Strickland River gold.

Gazelle Peninsula License (EL 1121)

In the Gazelle Peninsula license, bulldozing of trenches will be undertaken on the Doilene Prospect to identify drill targets. An expenditure of K 80,000 is planned on the license of which Indo Pacific is responsible for K 40,000.

Henganofi License (EL 916)

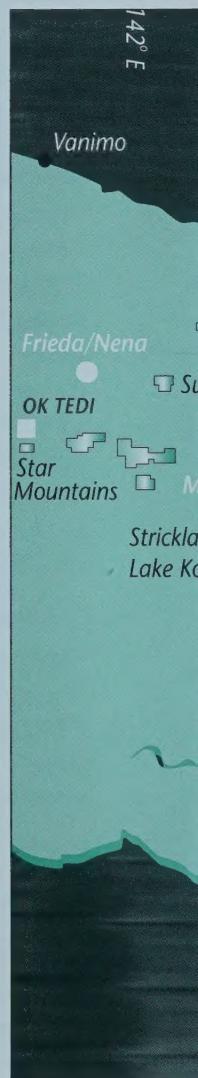
Detailed geological mapping and sampling and limited ground geophysics will be conducted over the main previously indicated mineralized areas.

AMBUNTI

Drilling of this prospect is planned in mid-1998 in association with the drilling proposed on the nearby Sumwari license.

NEW HANOVER

Plans include conducting further detailed geological mapping and sampling of the extensions of the Kuliuta Prospect.



MANAGEMENT BELIEVES THAT THIS BUDGET AND STRATEGY WILL PERMIT THE COMPANY TO MAINTAIN ITS STRONG TENEMENT POSITION IN PAPUA NEW GUINEA, WHILE AT THE SAME TIME MAXIMIZING ITS OPPORTUNITIES TO MAKE A SIGNIFICANT DISCOVERY.

HENGANOI

Detailed geological mapping and sampling and limited ground geophysics will be conducted.

WEST NEW BRITAIN

Fieldwork will be carried out to plan ground geophysical surveys and locate further drill sites on the Kavola East target.



DAWA DAWA

A detailed reconnaissance will be conducted over the prospects within the license area and targeting particularly Mr. Haluba type secondary gold blankets.

DAWA DAWA

Bulldozing of trenches will be undertaken on the Doilene Prospect to identify drill targets.

DAWA DAWA

In the Tabubil Block detailed geological mapping and a ground magnetometer survey over the areas of anomalous copper-in-soil will be conducted.

VERI ISLAND, BURGE/LAKE KOPINGO

Fieldwork is planned to be integrated with work in the nearby Bolovip section of the Star Mountains license.



BOWTU MOUNTAINS

The mineralized areas indicated in the Du River Prospect will be tested by ground geophysics and possibly induced polarization for drill targets.

SUMWARI

Fieldwork started in mid-February, 1998 will identify initial drill targets and 1,000 metres of diamond drilling is planned from May to July.

AUDITOR'S REPORT

To the shareholders of
Indo Pacific Resources Ltd.

To the Shareholders of
Indo Pacific Resources Ltd.

We have audited the consolidated balance sheets of Indo Pacific Resources Ltd. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Thompson & Thompson

CHARTERED ACCOUNTANTS

CALGARY, Alberta
April 28, 1998

INDO PACIFIC RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1996

(Amounts stated in U.S. Dollars)

	1997	1996
ASSETS		
CURRENT		
Cash	\$ 24,973	\$ 532,638
Accounts receivable (Note 7)	4,752	321,939
	29,725	854,577
CAPITAL ASSETS (Note 3)	113,596	112,343
MINING PROPERTIES (Note 4)	3,465,896	2,947,761
	<hr/> \$ 3,609,217	<hr/> \$ 3,914,681
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 7)	\$ 558,874	\$ 238,598
GOING CONCERN (Note 1)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	5,654,626	5,039,991
SPECIAL WARRANTS (Note 6)	-	70,519
DEFICIT	(2,604,283)	(1,434,427)
	3,050,343	3,676,083
	<hr/> \$ 3,609,217	<hr/> \$ 3,914,681

APPROVED ON BEHALF OF THE BOARD



Bruce A. Macdonald, Director



R. Bruce Allford, Director

See accompanying notes to consolidated financial statements

INDO PACIFIC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

YEARS ENDED DECEMBER 31, 1997 AND 1996

(Amounts stated in U.S. Dollars)

	1997	1996
EXPENSES		
General and administration	\$ 462,470	\$ 369,965
Consulting fees	157,113	89,618
Financing and corporate structuring costs	78,711	435,318
Professional fees	73,940	235,379
Loss (gain) on foreign exchange	31,988	(17,482)
Investor communications	31,981	40,170
Travel	10,409	24,801
Transfer agent, company and listing fees	5,442	24,862
Exploration and lease expenditures	—	34,163
Depreciation	20,158	9,328
LOSS BEFORE OTHER ITEMS	872,212	1,234,122
OTHER ITEMS		
Provision for loss on related party loan (Note 7 (f))	280,857	—
Provision for decline in market value of shares (Note 7) (f)	30,537	—
Finders fee (Note 7 (f))	—	(36,542)
Interest income	(13,750)	(95,547)
	297,644	(132,089)
LOSS	1,169,856	1,102,033
Deficit, beginning of year	1,434,427	332,394
DEFICIT, END OF YEAR	\$ 2,604,283	\$ 1,434,427
LOSS PER SHARE	\$.0717	\$.0847

See accompanying notes to consolidated financial statements





INDO PACIFIC RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1997 AND 1996

(Amounts stated in U.S. Dollars)

	1997	1996
OPERATING ACTIVITIES		
Loss	\$ (1,169,856)	\$ (1,102,033)
Add non-cash items		
Provision for loss on related party loan	256,710	—
Provision for decline in market value of shares	30,537	—
Depreciation	20,158	9,328
	(862,451)	(1,092,705)
Net change in non-cash working capital (Note 8)	350,216	(181,130)
Cash used in operating activities	(512,235)	(1,273,835)
FINANCING ACTIVITIES		
Issuance of share capital	544,116	28,242
Issuance of Series A special warrants	—	1,672,100
Issuance of Series B special warrants	—	2,326,400
Cash provided by financing activities	544,116	4,026,742
INVESTING ACTIVITIES		
Expenditures for mining leases	(518,135)	(2,183,671)
Purchase of capital assets	(21,411)	(105,853)
Cash used in investing activities	(539,546)	(2,289,524)
INCREASE (DECREASE) IN CASH	(507,665)	463,383
Cash, beginning of year	532,638	69,255
CASH, END OF YEAR	\$ 24,973	\$ 532,638

See accompanying notes to consolidated financial statements



DECEMBER 31, 1997 AND 1996

(Amounts stated in U.S. Dollars)

These consolidated financial statements have been prepared on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Company will be able to continue its business activities. The Company is in the process of exploring its mining properties and has not yet determined whether these properties contain reserves which are economically recoverable. The continuation of the Company as a going concern is dependant upon the discovery of economically recoverable reserves and the ability to obtain necessary financing to develop its mining properties. To date, the Company has incurred substantial losses and has accumulated a significant working capital deficit. Management believes that its efforts to settle existing obligations and obtain additional financing described in Note 12 will be successful and will allow the Company to continue as a going concern. However, there is no assurance that these plans will succeed or that the Company will continue as a going concern, in which case the Company may not be able to meet its obligations as they come due or realize its assets at the amounts at which they are carried in these financial statements.

These consolidated financial statements have been prepared in U.S. dollars in accordance with accounting principles generally accepted in Canada.

A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries Indo Pacific Mining (Barbados) Ltd. and Indo Pacific Mining (PNG) Pty. Ltd.

MINING CLAIMS

The Company records its interest in mining properties at cost whereby all direct and indirect costs of acquiring, exploring for and developing mining properties are capitalized as separate areas of interest. Costs that prove to be related to non-productive

properties will be charged to operations in the year of abandonment. When an area of interest is brought into production, the cost will be amortized using the unit of production method over the expected life of the license.

C) CAPITAL ASSETS AND AMORTIZATION

Capital assets are recorded at cost. Amortization of these assets is provided using the diminishing value method so as to amortize their costs over their estimated useful lives. The annual rate of amortization is as follows:

Office equipment	– 11%
Mining equipment	– 15%
Automobiles	– 30%

Additions are amortized from the month of acquisition.

D) RECLAMATION

A provision for site restoration costs to comply with existing reclamation standards will be provided for over the estimated life of the Company's licenses using the unit of production method.

E) PER SHARE INFORMATION

Per share computations are based upon the weighted average of common shares outstanding during the respective years.

F) TRANSLATION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies other than the U.S. dollar are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the rates in effect at the dates the assets or liabilities were acquired. Expense items are translated at the average rates of exchange during the month in which they are recognized.

3 Capital Assets

	1997		1996	
	Accumulated Cost	Depreciation	Net Book Value	Net Book Value
Office equipment	\$ 82,480	\$ 15,063	\$ 67,417	\$ 66,611
Mining equipment	42,394	7,009	35,385	30,383
Automobiles	18,206	7,412	10,794	15,349
	\$ 143,080	\$ 29,484	\$ 113,596	\$ 112,343

4. Mining Properties

	1997	1996
Exploration and license fees	\$ 3,465,896	\$ 2,947,761

All of the Company's exploration activities are carried out in Papua New Guinea. Exploration licenses over the following tenements were held by the Company as of December 31, 1997: EL916, EL958, E987, EL1008, EL1018, EL1052, EL1084, EL1086, EL1088, EL1107, EL1108, EL1121, EL1164, EL1233.

5. Capital Stock

A) AUTHORIZED

Unlimited number of common shares, with no par value

B) ISSUED

	Number of Shares	Consideration
Balance, December 31, 1995	11,525,429	\$ 1,083,768
Exercise of Class A warrants	1,940,000	1,621,937
Exercise of Class B warrants	1,982,500	2,306,044
Finders fee	15,000	-
Balance, December 31, 1996	15,462,929	5,039,991
Exercise of options	15,000	3,816
Exercise of Class A warrants	60,000	50,163
Exercise of Class B warrants	17,500	20,356
Private placement for cash	1,500,000	540,300
Balance, December 31, 1997	17,055,429	\$ 5,654,626

C) Of the 17,055,429 common shares issued, 3,866,667 (1996 – 3,866,667) are subject to an escrow agreement among the escrowed shareholders, the Corporation and a trust company whereby certain conditions imposed by the Alberta Stock Exchange must be met for the subject shares to be released.

The legal stated capital of Indo Pacific Resources Ltd. at December 31, 1997 is \$9,427,450 Cdn. (1996 – \$ 8,672,200 Cdn.)

D) STOCK OPTIONS

The Company has granted 1,135,000 (1996 – 1,150,000) stock options to purchase common shares. The options are exercisable at \$ 0.35 and expire on June 30, 2000.

During the year ended December 31, 1997 the Company granted 350,000 options which subsequently expired without being exercised.

Subsequent to year end, the Company granted 600,000 stock options to two directors. The options are exercisable at \$0.10 and expire in January 2003.

E) During the year the Company issued 1,500,000 shares to a director and officer for cash proceeds of \$540,300.

6. Special Warrants

A) SERIES A SPECIAL WARRANTS

	Number of Warrants	Consideration
Issued for cash	2,000,000	\$ 1,672,100
Exercised into common shares	(1,940,000)	(1,621,937)
Balance, December 31, 1996	60,000	50,163
Exercised into common shares	(60,000)	(50,163)
Balance, December 31, 1997	–	\$ –

The Company issued 2,000,000 Series A Special Warrants during January and March 1996 at \$ 1.15 Cdn. per Series A Special Warrant. Of the 2,000,000 Series A Special Warrants issued, 60,000 (1996 – 1,940,000) were exercised to acquire 60,000 (1996 – 1,940,000) common shares at no additional consideration.

B) SERIES B SPECIAL WARRANTS

	Number of Warrants	Consideration
Issued for cash	2,000,000	\$ 2,326,400
Exercised into common shares	(1,982,500)	(2,306,044)
Balance, December 31, 1996	17,500	20,356
Exercised into common shares	(17,500)	(20,356)
Balance, December 31, 1997	–	\$ –

The Company issued 2,000,000 Series B Special Warrants during March 1996 at \$1.60 Cdn. per Series B Special Warrant. Of the 2,000,000 Series B Special Warrants issued, 17,500 (1996 – 1,982,500) were exercised to acquire 17,500 common shares (1996 – 1,982,500). With each common share, the holder also received one-half of one warrant without payment of additional consideration. One warrant entitled the holder to acquire one common share at a price of \$ 2.00 Cdn. on or before September 5, 1996. No warrants were exercised and as a result, all such warrants expired.

C) Pursuant to the issue of the Series A and B Special Warrants, the Company also issued 140,000 Series C Special Warrants which entitled the Agent of the issuer to acquire one common share for each one Series C Special Warrant at a price of \$ 2.00 Cdn. per common share. The Series C Special Warrants expired on March 7, 1997, with none of the Series C Special Warrants being exercised.

7. Related Party Transactions

The Company had the following transactions with related parties:

- A) During the year the Company was charged consulting fees by a company controlled by a director in the amount of \$109,086 (1996 – \$138,066) of which \$ nil (1996 – \$4,828) is included in accounts payable.
- B) During the year the Company was charged consulting fees and third party charges by a company of which a former director is a shareholder in the amount of \$27,880 (1996 – \$ nil) of which \$27,880 (1996 – \$ nil) is included in accounts payable.
- C) During the year the Company was charged consulting fees and third party charges by a director in the amount of \$25,223 (1996 – \$45,004) of which \$ 9,721 (1996 – \$ nil) is included in accounts payable.
- D) During the year the Company was charged legal fees by a legal firm of which a director is a partner in the amount of \$22,452 (1996 – \$125,211) of which \$16,258 (1996 – \$18,184) is included in accounts payable.
- E) Included in accounts payable is an amount of \$175,433 advanced by a Company controlled by a director. The advance is non-interest bearing and is payable on demand. Subsequent to year end, an agreement has been reached to settle this advance by the issuance of shares (Note 12(a)).
- F) As at December 31, 1996 accounts receivable of \$321,939 were comprised of a \$275,000 loan issued by a corporation related by a common director, plus interest receivable on the loan of \$10,397 calculated at 10% per annum and an amount of \$36,542 receivable as a finders fee for providing the loan. During the year ended December 31, 1997, an additional \$24,147 of interest income was accrued on this loan. Principal payments of \$18,290 were received and the finders fee amount of \$36,542 was settled in exchange for common shares in a publicly traded company valued at \$36,542. Subsequently, a decision was made to provide in full against the remaining balance outstanding, since no further payments were received and the likelihood of future payments was in doubt. After the end of the year, an agreement has been reached to settle the balance outstanding on this loan, including accrued interest, for \$132,073 (Note 12(b)).

8. Net Change in Non-Cash Working Capital

	1997	1996
(Increase) decrease in non-cash current assets		
Accounts receivable	\$ 29,940	\$ (319,779)
Increase (decrease) in non-cash current liabilities		
Accounts payable	320,276	138,649
	\$ 350,216	\$ (181,130)

9. Income Taxes

- A) The Company has non-capital losses available in Canada of approximately \$ 920,700 Cdn. These losses expire as follows:

2002	–	\$ 54,616 Cdn.
2003	–	\$ 250,243 Cdn.
2004	–	\$ 615,841 Cdn.

- B) In addition, the Company has income tax losses through its wholly owned subsidiary in Papua New Guinea of approximately 1,300,000 Kina. These losses expire as follows:

2003	–	435,000 Kina
2004	–	865,000 Kina

The future benefit of these losses, which approximate \$1,546,000 U.S. in total, has not been reflected in these financial statements.

10. Commitment

Pursuant to the terms of the exploration licenses referred to in Note 4, the Company is required to commit minimum total expenditures of approximately \$442,000 U.S. during the fiscal year ended December 31, 1998 and \$438,000 U.S. during the fiscal year ended December 31, 1999.

11. Financial Instruments

The fair market value of the Company's financial instruments comprising cash, accounts receivable and accounts payable, is not materially different from their book value. The majority of the Company's transactions are denominated in U.S. dollars, other than share capital transactions which are denominated in Canadian dollars. As such, the Company is not exposed to any significant foreign exchange risk.

12. Subsequent Events

- A) In January, 1998, the Company entered into an agreement with a company controlled by a director, whereby a liability of \$ 380,000 Cdn. owed by the Company would be settled by the issuance of 3,800,000 common shares. Of the 3,800,000 common shares to be issued on the settlement, 2,000,000 have been issued and a further 1,800,000 will be issued subject to shareholder approval.
- B) In February, 1998, the Company entered into an agreement with a corporation related by a common director that had borrowed \$275,000 U.S. in 1996, and a third party individual who had guaranteed the loan. The original note was for \$275,000 with interest at 10%. During 1997, the loan was in default with only \$18,290 being paid.

The agreement provides for the assignment of the note receivable plus all accrued interest, valued at \$280,857, to the third party who guaranteed the loan in exchange for the assumption of \$125,776 of accounts payable of the Company, plus the payment of \$6,297 in cash.

The settlement agreement is contingent on the third party individual obtaining consent of creditors on the accounts payable assumed, the payment of \$6,297 in cash, or providing the Company with equal value in security by May 31, 1998. In the event these conditions are not met, the agreement becomes null and void and the parties shall be returned to their original positions.

- C) In March, 1998, the Company commenced proceedings for an offer of rights to subscribe for common shares. Each holder of common shares on March 27, 1998 will receive one right for each common share held. Four rights and the sum of \$ 0.22 Cdn. are required to subscribe for one additional common share.





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